

Financial Status Report

Prepared by the Finance Department



June 30, 2014

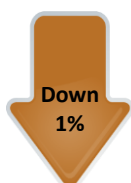
This report summarizes the City of Carlsbad's General Fund revenues and expenditures through June 30, 2014. It compares revenues and expenditures for Fiscal Year 2013-14 and Fiscal Year 2012-13. In addition, the financial status of the Water and Wastewater Enterprises are included. This report is for internal use only. The figures presented here are unaudited and have not been prepared in accordance with Generally Accepted Accounting Principles (GAAP).

General Fund Balance

The books have been closed for the fiscal year, and the audit is underway. Interest income is shown on an amortized cost basis, and will be adjusted to market value as required under GAAP for presentation in the Comprehensive Annual Financial Report (CAFR). Revenues totaled \$128.7 million, which was \$5.6 million above recent projections. Expenditures and encumbrances at \$129.8 million were \$20.7 million below the budget for the year. Due to the City of Carlsbad's fiscal discipline, as reflected in the chart, the General Fund's unassigned fund balance is projected to grow by \$5.4 million for the year, for a total of just under \$75.0 million.

GENERAL FUND FISCAL YEAR 2013-14 UNASSIGNED FUND BALANCE (unaudited)	
	Actual on a Budgetary Basis
Unassigned Fund Balance 7/1/2013	\$69,545,196
Revenues/Transfers In*	128,686,789
Expenditures/Encumbrances/Transfers Out	(129,799,453)
Other Changes in Nonspendable, Committed and Assigned**	6,552,069
Unassigned Fund Balance 6/30/2014	<u>\$74,984,601</u>
<small>* Interest income is shown on an amortized basis, and will be \$642,290 more when adjusted to fair market value as required under GAAP for financial statement reporting. ** Nonspendable, committed and assigned fund balances include advances and additional amounts not available for spending.</small>	

General Fund Revenues



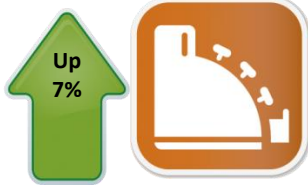
Property Taxes (\$50.5 million) – Property taxes reflected a 1 percent decrease over Fiscal Year 2012-13. According to the County of San Diego Assessor's Office, assessed values in Carlsbad increased by 2.47 percent for Fiscal Year 2013-14. This was the first year since Fiscal Year 2008-09 that Carlsbad's assessed values increased from year to year. This reflected a slight improvement in the housing market and new construction. The increase

in this year's assessed values was due to an increase in residential and commercial properties; industrial property values actually decreased for the year.

The primary reasons that property taxes for the fiscal year decreased by 1 percent as compared to the prior fiscal year were:

- Current taxes were up by \$1.2 million, or 2.6 percent, due to an increase in assessed values.
- Aircraft taxes were down by \$129,000, or 8 percent, due to one-time revenues received in the prior fiscal year and a decrease in the collection of prior year taxes (delinquencies).
- Supplemental taxes were up by \$340,000 or 59.4 percent, due to an increase in home resales whereby the sales price of the home exceeded the previous assessed value (a sign of a recovering housing market).

- Payments for previous years' taxes were down by \$129,000 due to a decrease in collections on past due tax bills and an increase in commercial/industrial property reassessments.
- Unitary taxes were down by \$140,000 due to additional one-time revenues received in the prior fiscal year.
- Additional one-time property taxes received in the prior fiscal year from the dissolution of the former Redevelopment Agency were down by \$1.8 million.



Sales Taxes (\$31.5 million) – For the year, sales tax revenues were \$2.2 million (or 7 percent) higher than the previous fiscal year. The primary factors in the increase over the prior fiscal year were the result of a 10.8 percent increase in sales tax revenue during the second calendar quarter of 2013, a 4.1 percent increase in sales tax revenues during the third calendar quarter of 2013, a 7.1 percent increase in sales tax revenues during the fourth calendar quarter of 2013, a 5.7 percent increase in sales tax revenues during the first calendar quarter of 2014, the SBOE applying a positive 3.8 percent growth factor to the monthly advances for the second calendar quarter of 2014, a 3.8 percent growth in Prop 172 (public safety) sales tax revenues, and a 6.7 percent growth in the semi-annual “Triple Flip” payments.

For sales occurring in the first calendar quarter of 2014 (the most recent data available), key gains could be seen in new auto sales, miscellaneous retail, building materials - retail, and restaurants. During the same period, key declines could be seen in apparel stores, department stores and electronic equipment. Excluding one-time payments received as the result of audit findings, payments for previous quarters, etc., actual sales tax transactions were up 4.9 percent for sales occurring in the 12 months ended March 31, 2014 over the same 12-month period last year.

The largest economic segments in the city continued to be new auto sales, restaurants, apparel stores, department stores and miscellaneous retail. Together, they generated 67 percent of the city's sales tax revenues.



Transient Occupancy Tax (\$17.5 million) – Transient Occupancy Taxes (TOT) for the fiscal year reflected an increase of \$2.8 million, 19 percent more than the previous year. The city's four largest hotels accounted for 62 percent of the increase. Higher occupancy and room rates throughout most of the city's other hotels also contributed to the variance. Additionally, one new hotel opened up this year, while a smaller 120-room property was closed for renovations last year and reopened in September 2013. In April 2013, the new 250 room Legoland hotel opened. Year-to-date TOT figures represent taxes collected on hotel receipts through the month of June 2014.

Currently, there are 4,061 hotel rooms and 1,021 vacation rentals (timeshares) in the city. The average occupancy of hotel rooms over the most recent 12 months was 67 percent, 5 percentage points above last year's average.



Franchise Taxes (\$4.9 million) – Franchise taxes were generated from public utility sources such as San Diego Gas & Electric (SDG&E), trash collection franchises, fiber optic antenna systems and cable franchises conducting business within city limits. Year-to-date franchise taxes were down \$232,000 over the same period last year. Cable television franchise revenues (Time Warner and AT&T) were down by \$63,000. This decrease was the result of a prior period correction made by the AT&T franchisee as well as a reduction in cable revenues at Time Warner. An increase in trash collection revenue from the combination of an average 5 percent rate increase and more commercial accounts coming online from additional development in the city, led to a \$44,000 increase in trash franchise revenues. SDG&E franchise fees reflected a decrease of \$190,000 as explained below. A timing difference in the receipt of the quarterly fiber optic antenna system franchise payment created a negative \$23,000 variance in the current fiscal year.

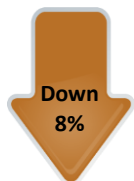
SDG&E pays franchise taxes for the use of public land over which they transport gas and electric services. In addition, SDG&E pays an “in-lieu” franchise tax based on the value of gas and electricity transported through SDG&E lines, but purchased from another source. The majority of “in-lieu” taxes collected was from Cabrillo Power, the operator of the Encina Plant. The “in-lieu” tax was put in place to capture the franchise taxes on gas and electricity that is transported

using public lands, but which would not otherwise be included in the calculations for franchise taxes. The franchise taxes paid by SDG&E were down in total by 9.1 percent. Net electricity sales were up by 6 percent, while net gas sales were up by 17 percent. The primary reason for the increase in gas sales was escalating natural gas prices. The “in-lieu” taxes were down by 43 percent; a reflection of the amount of utilities transported through SDG&E lines but not purchased from SDG&E.



Business License Tax (\$4.2 million) – Business license revenues were up \$344,000 compared to the same time period in Fiscal Year 2012-13. This was due almost entirely to the city’s largest licensee having increased business volumes over the prior year.

There are currently 9,332 licensed businesses operating within the city, 263 more than the prior year. The majority of taxed businesses (6,453 businesses) are located in Carlsbad, with 2,468 of these businesses home-based.



Interdepartmental Charges (\$3.6 million) – Interdepartmental charges were \$291,000, or 8 percent lower than last year. These charges were generated through engineering services charged to capital projects (down 47.5 percent, or \$511,000, due to a reduction in staff time charged to capital projects), reimbursed work from other funds (flat) and miscellaneous interdepartmental expenses charged to funds outside the General Fund for services performed by departments within the General Fund (up 7.9 percent or

\$220,000). A major factor in the decrease in engineering services charged to capital projects was the fact that several staff members have been working full-time on the new desalination plant pipeline, thereby creating additional other permits revenues and creating a reduction in staff time charged to capital projects. The increase in miscellaneous interdepartmental expenses charged to funds outside of the General Fund was due to the bi-annual update of the city’s cost allocation plan.



Development Related Revenues (\$3.4 million) – Development related revenues, which include building permits, planning fees, building department fees, and engineering fees, reflected a moderate increase for the year.

Development related fees were paid by developers to cover the cost of reviewing and monitoring development activities, such as plan checks and inspections. Engineering plan check fees are one of the first fees paid during the initial stages of development. Some of the activity in June included the Miles Pacific residential development, the Walnut townhomes project, La Costa Villas, several small residential developments and the ViaSat headquarters remodel.

Another source of development related revenue was building permits, which were up 2 percent compared to last fiscal year. The increase in building permit revenue was derived from the combination of an increase in the valuation of new construction combined with a reduction in the number of residential building permits offset by an increase in the square footage of commercial/industrial permits issued. The year-to-date valuation of new construction in the current fiscal year was just under \$183 million, while it was just under \$172.9 million in the previous fiscal year, a 5.9 percent increase. In June, Carlsbad issued 16 permits for new homes. June’s issued permits will result in the construction of 12 homes in the northeast quadrant as part of the Palo Verde project, located in the Foothills neighborhood. In the southwest quadrant, building permits were issued for two condominiums in the 68-unit Voscana neighborhood. Lastly, a single-family residence and a second dwelling will also be constructed. For the current fiscal year, 152 residential permits were issued, as compared to 310 permits issued during the same period last year.

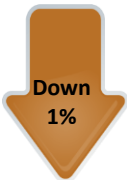
In June, the city permitted 8,138 square feet of commercial space. A permit was issued for a 3,638 square foot Chase Bank and a permit was issued for a 4,500 square foot Wells Fargo Bank; both financial institutions will be part of the La Costa Square project. Year-to-date there was 682,180 square feet of commercial/industrial permits issued, as compared to 335,816 square feet of commercial/industrial permits issued during the same period last year.



Income from Investments and Property (\$3.0 million) – For the year, income from investments and property was up \$788,000 compared to the previous fiscal year.

Interest income was up \$548,000 for the year due to the net effects of an 11.6 percent increase in the average daily cash balance, an 8.7 percent decrease in the average yield on the portfolio for the year (a drop in the yield from 1.14 percent last fiscal year to 1.04 percent in the current fiscal year), and the receipt of the first repayment of the city's former Redevelopment Agency advance from the General Fund by the Successor Agency. In addition, since the General Capital Construction (GCC) Fund is funded entirely with General Fund money, the city decided to record the interest earnings associated with the GCC cash in the General Fund. This increased the interest income in the General Fund by \$450,000 for the fiscal year.

Income from property rentals was up by \$240,000 for the year primarily due to an increase in recreation site facility rentals (the various park sites as well as the Monroe Pool). Another major factor in the increase in facility rentals was the opening of Alga Norte Park, which has a large aquatic center available for rent (pool lanes, facilities and park space).



Ambulance Fees (\$2.3 million) – The city bills any individual who is transported in one of the city's ambulances. Through June 2014, receipts from ambulance fees were down 1 percent, or \$28,000, lower than last fiscal year at this time. The number of billable transported patients in Fiscal Year 2013-14 (4,226) versus Fiscal Year 2012-13 (4,358) decreased modestly, due to fewer calls for response from our neighboring cities.



Recreation Fees (\$2.1 million) – Recreation fees are generated through instructional classes, camps, youth and adult sports, the triathlon, special events, parent participation preschool, senior programs, various aquatic programs, and lagoon permits. The increase in revenue was attributed to a new, innovative approach in program evaluations and offerings. Another major factor in the increase in revenues was the opening of the Alga Norte Park and Aquatic Center. These revenues will also continue to increase as we approach the summer months.



Other Licenses and Permits (\$1.3 million) – Other licenses and permits consisted of plumbing, electrical, mechanical, right-of-way, grading, conditional land use, lagoon, and other miscellaneous permit revenues. These permits usually increase/decrease along with increases/decreases in development activity. The construction of the new desalination pipeline through the City of Carlsbad played a major role in the increase in revenues for the year.



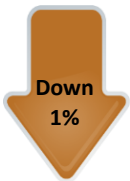
Transfer Taxes (\$1.1 million) – When real property is sold, the County Assessor's Office charges a transfer tax. The transfer tax rate in San Diego County is \$1.10 per thousand multiplied by the selling price of the property. The city receives 50 percent of the transfer tax charged for sales within the City of Carlsbad. Year-to-date revenues increased slightly, as the housing market continues to show signs of a recovery.



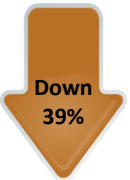
Other Revenue Sources (\$1 million) – Other revenue sources decreased by \$957,000 and included revenues received by the city to offset the costs of special studies or projects for developers; reimbursements for damage done to city streets, right-of-ways, and other city-owned property; donations; reimbursement from the Gas Tax Fund for traffic signal maintenance; miscellaneous reimbursed expenses and refunds of prior year fees. A major factor in the decrease in revenues from the prior fiscal year was a large refund received

by the city last fiscal year. Due to a ruling by the California Supreme Court, administrative fees associated with the collection of the triple flip sales tax and VLF-in-lieu (property taxes in lieu of vehicle license fees) revenues were deemed to be unlawful. The city received a \$615,000 refund in Fiscal Year 2012-13 of prior year administrative fees collected

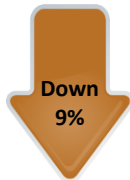
on these revenues, creating the large variance from the prior fiscal year. Another factor in the large decrease for the year was a drop in revenue received for damage done to city owned property.



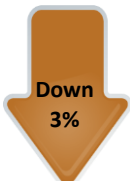
Fines and Forfeitures (\$748,000) – Fines and forfeitures represent fees collected for code violations, parking citations, overdue fines, and returned checks. The city recognizes revenues when the citizen pays the fine or forfeiture, as opposed to when the fine is imposed. The largest factor in the decrease in revenues was that there had been a significant decrease in the amount of revenues received from the traffic court for code violations for the year. The number of citations issued decreased over the past two fiscal years due to staffing vacancies within the Police department.



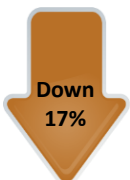
Other Intergovernmental Revenues (\$676,000) – Other intergovernmental revenues included miscellaneous receipts received from the state or federal governments, as well as local school districts. Included in the \$676,000 received this year were an adult learning grant, federal senior nutrition grants, a habitat restoration grant, as well as mandated costs, reimbursement from local school districts for school resource officers, task force reimbursements from the County of San Diego, revenue received from other agencies for use of the city's Safety Training Center, reimbursements for a state corrections realignment plan, a regional auto theft task force reimbursement and Police Officer Standard Training (POST) reimbursements. The decrease for the year was the result of additional habitat restoration grant revenues and one-time funds received from SANDAG for freeway emergencies, both received last fiscal year.



Other Charges or Fees (\$608,000) – Other charges and fees were generated through the sale of city documents, such as agenda bills, blueprints and copies; general fees collected for false alarms, easements and agreements, weed abatement and kiosk signs; audio/visual rental fees; and general services such as mutual aid response, mall police services, emergency response services, reports, etc. Lower revenues for the year were due to the elimination of reimbursements from the City of San Diego for the abandoned vehicle program.



Homeowners' Exemptions (\$352,000) – When property taxes are calculated on a particular parcel of owner-occupied property, the first \$7,000 of property value is excluded from the property tax calculation. The state then reimburses the city for this mandated exemption. This reimbursement is entitled Homeowners' Exemption revenue and is shown under intergovernmental revenues. A reduction in the number of owner-occupied versus rental properties in the city led to the decrease for the year.



Vehicle License Fees (\$46,000) – Although the city is no longer receiving vehicle license fee (VLF) revenues from the state, the revenues received in the current fiscal year represented a retroactive clean-up payment received by the city for prior fiscal years.

Expenditures

Total General Fund expenditures, encumbrances and transfers out for Fiscal Year 2013-14 equaled \$129.8 million. This was \$20.7 million less than the budget of \$150.5 million. These “savings” represented an accumulation of efficiency efforts achieved over the past 13 years. Expenditures are shown on a budgetary basis, which means they include all amounts actually spent during the year, plus any money encumbered at the end of the year. A portion of the \$20.7 million in unspent money will be carried over to the next fiscal year. These “savings” will be used for one-time projects to improve efficiencies in the city.

The City Council allocated \$1.5 million out of the General Fund budget for unanticipated emergencies or unforeseen program needs. For the fiscal year ended June 30, 2014, \$1,291,602 was authorized out of the contingency account, as shown in the chart below.

CONTINGENCY ACCOUNT USE OF FUNDS			
EXPLANATION	AMOUNT	DATE	RESOLUTION NUMBER
ADOPTED BUDGET	\$1,500,000		
USES:			
Labor Negotiations	(555,000)	06/18/2013	2013-159
Special Events Grant for Christmas in July Event	(110)	07/02/2013	City Manager
Winning Teams Grant for La Costa 14U All-Star Team	(3,097)	07/26/2013	City Manager
Special Events Grant for In-Kind Services for the Carlsbad Grand Prix	(8,445)	08/27/2013	City Manager
Labor Negotiations	(498,000)	08/27/2013	2013-217
Community Spirits Grant for In-Kind Services for the Lancer Day Parade	(1,235)	09/05/2013	City Manager
Special Events Grant for the Lagoon Paddle Poker Challenge	(3,044)	10/16/2013	City Manager
Winning Teams Grant for the La Costa Canyon Pop Warner Mavericks Cheer Team	(5,000)	12/02/2013	City Manager
Winning Teams Grant for the Carlsbad High School Lancers Dancers Dance Team	(4,141)	12/02/2013	City Manager
Community Spirits Grant for In-Kind Services for the Carlsbad Christmas Bureau	(1,776)	12/04/2013	City Manager
Winning Teams Grant for the Carlsbad High School Xcalibur Dance Team	(5,814)	01/28/2014	2014-019
Tourism Consulting Services Contract	(43,125)	03/11/2014	2014-035
Interim City Manager Contract	(26,903)	03/11/2014	2014-039
New City Manager Contract	(120,000)	03/11/2014	2014-040
Winning Teams Grant for Carlsbad High School's Odyssey of the Mind Team	(1,582)	05/01/2014	City Manager
Winning Teams Grant for Diegueno Middle School's Odyssey of the Mind Team	(2,655)	05/01/2014	City Manager
Winning Teams Grant for Pacific Rim Elementary School's Odyssey of the Mind Team	(1,688)	05/16/2014	City Manager
Special Events Grant for the Carlsbad Beach Fest	(9,987)	06/03/2014	2014-108
TOTAL USES	<u>(1,291,602)</u>		
AVAILABLE BALANCE	<u><u>\$208,398</u></u>		

Detailed schedules of General Fund revenues and expenditures are provided on the following pages.

**GENERAL FUND
REVENUE COMPARISON**

	ESTIMATED REVENUE 2013-14	ACTUAL REVENUE 2012-13	ACTUAL REVENUE 2013-14	ACTUAL 2013-14 COMPARED TO ACTUAL 2012-13	
				DIFFERENCE	%
TAXES					
PROPERTY TAX	\$49,968,000	\$51,232,217	\$50,523,253	(\$708,964)	-1.4%
SALES TAX	31,107,000	29,301,080	31,464,282	2,163,202	7.4%
TRANSIENT TAX	15,971,000	14,702,411	17,472,317	2,769,906	18.8%
FRANCHISE TAX	4,885,000	5,117,586	4,885,334	(232,252)	-4.5%
BUSINESS LICENSE TAX	3,677,000	3,833,585	4,177,482	343,897	9.0%
TRANSFER TAX	1,097,000	1,058,343	1,080,169	21,826	2.1%
TOTAL TAXES	106,705,000	105,245,222	109,602,837	4,357,615	4.1%
INTERGOVERNMENTAL					
VEHICLE LICENSE FEES	46,000	55,196	45,923	(9,273)	-16.8%
HOMEOWNERS EXEMPTIONS	355,000	362,631	352,032	(10,599)	-2.9%
OTHER	618,000	1,106,327	675,825	(430,502)	-38.9%
TOTAL INTERGOVERNMENTAL	1,019,000	1,524,154	1,073,780	(450,374)	-29.5%
LICENSES AND PERMITS					
BUILDING PERMITS	735,000	869,357	883,863	14,506	1.7%
OTHER LICENSES & PERMITS	723,000	1,147,006	1,299,851	152,845	13.3%
TOTAL LICENSES & PERMITS	1,458,000	2,016,363	2,183,714	167,351	8.3%
CHARGES FOR SERVICES					
PLANNING FEES	147,000	567,439	490,260	(77,179)	-13.6%
BUILDING DEPT. FEES	553,000	747,286	861,538	114,252	15.3%
ENGINEERING FEES	627,000	768,103	1,150,988	382,885	49.8%
AMBULANCE FEES	2,260,000	2,368,600	2,340,445	(28,155)	-1.2%
RECREATION FEES	2,114,000	1,580,385	2,117,278	536,893	34.0%
OTHER CHARGES OR FEES	509,000	670,379	607,757	(62,622)	-9.3%
TOTAL CHARGES FOR SERVICES	6,210,000	6,702,192	7,568,266	866,074	12.9%
FINES AND FORFEITURES	680,000	754,345	747,787	(6,558)	-0.9%
INCOME FROM INT & PROPERTY	2,388,000	2,170,981	2,959,036	788,055	36.3%
INTERDEPARTMENTAL CHARGES	3,718,000	3,857,961	3,566,716	(291,245)	-7.5%
OTHER REVENUE SOURCES	855,000	1,926,098	969,153	(956,945)	-49.7%
TRANSFERS IN	10,000	10,000	15,500	5,500	55.0%
TOTAL GENERAL FUND	\$123,043,000	\$124,207,316	\$128,686,789	\$4,479,473	3.6%

GENERAL FUND EXPENDITURE STATUS BY DEPARTMENT				
DEPT DESCRIPTION	TOTAL BUDGET FY 2013-14	AS OF 06/30/14		
		ACTUAL ON A BUDGETARY BASIS (b)	UNDER/ (OVER) BASIS (c)	% UNDER/ (OVER) BUDGET
POLICY/LEADERSHIP GROUP				
CITY COUNCIL	\$403,783	\$358,133	\$45,650	11.3%
CITY MANAGER	1,765,381	1,749,235	16,146	0.9%
COMMUNICATIONS	913,647	902,666	10,981	1.2%
CITY CLERK	551,798	408,212	143,586	26.0%
CITY ATTORNEY	1,483,736	1,306,352	177,384	12.0%
CITY TREASURER	229,748	188,683	41,065	17.9%
TOTAL POLICY/LEADERSHIP	5,348,093	4,913,281	434,812	8.1%
ADMINISTRATIVE SERVICES				
FINANCE	4,585,949	4,194,375	391,574	8.5%
HUMAN RESOURCES	2,840,385	2,698,843	141,542	5.0%
RECORDS MANAGEMENT	419,325	273,150	146,175	34.9%
TOTAL INTERNAL SERVICES	7,845,659	7,166,368	679,291	8.7%
PUBLIC SAFETY				
POLICE	30,178,880	29,014,182	1,164,698	3.9%
FIRE	18,181,426	18,059,521	121,905	0.7%
TOTAL PUBLIC SAFETY	48,360,306	47,073,703	1,286,603	2.7%
COMMUNITY DEVELOPMENT				
COMMUNITY AND ECONOMIC DEVELOPMENT	9,030,940	8,644,408	386,532	4.3%
HOUSING AND NEIGHBORHOOD SERVICES	666,214	600,500	65,714	9.9%
TOTAL COMMUNITY DEVELOPMENT	9,697,154	9,244,908	452,246	4.7%
COMMUNITY SERVICES				
PARKS AND RECREATION	15,697,895	14,379,780	1,318,115	8.4%
LIBRARY AND ARTS	11,765,989	10,615,089	1,150,900	9.8%
TOTAL COMMUNITY SERVICES	27,463,884	24,994,869	2,469,015	9.0%
PUBLIC WORKS				
PROPERTY AND ENVIRONMENTAL MANAGEMENT	7,004,500	6,558,647	445,853	6.4%
TRANSPORTATION	11,349,374	10,143,961	1,205,413	10.6%
STORM DRAIN ENGINEERING	315,728	248,694	67,034	21.2%
TOTAL PUBLIC WORKS	18,669,602	16,951,302	1,718,300	9.2%
NON-DEPARTMENTAL & CONTINGENCY				
OTHER NON-DEPARTMENTAL (a)	16,819,622	3,319,806	13,499,816	80.3%
TRANSFERS OUT	16,135,216	16,135,216	0	0.0%
CONTINGENCY	208,398	0	208,398	100.0%
TOTAL NON-DEPT & CONTINGENCY	33,163,236	19,455,022	13,708,214	41.3%
TOTAL GENERAL FUND	\$150,547,934	\$129,799,453	\$20,748,481	13.8%

(a) Other non-departmental includes technology innovation, property tax administration fees, assessment district administration, citywide litigation expenses, and other items not attributed to a specific department.

(b) Actual expenditures on a budgetary basis include encumbrances and exclude non-budgeted items.

(c) These "savings" represent an accumulation of efficiency efforts achieved over the past thirteen years.

Water Enterprise

WATER OPERATIONS FUND JUNE 30, 2014					
	BUDGET FY 2013-14	YTD (*) 06/30/2013	YTD (*) 06/30/2014	CHANGE FROM YTD 2012-13 TO YTD 2013-14	PERCENT CHANGE
REVENUES:					
WATER DELIVERY	35,969,608	33,913,105	36,920,886	3,007,781	8.9%
MISC. SERVICE CHARGES	262,000	301,902	284,370	(17,532)	-5.8%
PROPERTY TAXES	2,865,000	2,931,276	2,898,443	(32,833)	-1.1%
FINES, FORFEITURES & PENALTIES	280,000	334,763	315,346	(19,417)	-5.8%
OTHER REVENUES	360,000	2,108,829	505,723	(1,603,106)	-76.0%
TOTAL OPERATING REVENUE	39,736,608	39,589,875	40,924,768	1,334,893	3.4%
EXPENSES:					
STAFFING	3,295,594	3,083,424	3,038,618	(44,806)	-1.5%
INTERDEPARTMENTAL SERVICES	2,015,340	1,969,162	1,965,185	(3,977)	-0.2%
PURCHASED WATER	19,269,608	17,283,027	19,266,083	1,983,056	11.5%
MWD/CWA FIXED CHARGES	5,850,000	5,516,572	5,837,489	320,917	5.8%
OUTSIDE SERVICES/MAINTENANCE	1,199,372	658,218	689,707	31,489	4.8%
DEPRECIATION/REPLACEMENT	3,475,000	4,490,873	4,500,000	9,127	0.2%
CAPITAL OUTLAY	0	4,165	1,729	(2,436)	100.0%
MISCELLANEOUS EXPENSES	2,024,096	2,010,527	2,267,945	257,418	12.8%
TOTAL OPERATING EXPENSES	37,129,010	35,015,968	37,566,756	2,550,788	7.3%
OPERATING INCOME/(LOSS)	2,607,598	4,573,907	3,358,012	(1,215,895)	-26.6%

(*) Adjusted to reflect timing differences for water purchases and depreciation.

Revenues

- The increase in water delivery revenues was the result of an average 8 and 5 percent increase in water rates charged to our customers (water sales and delivery charges) that went into effect in January 2013 and January 2014 respectively, coupled with larger than average sales due to a warmer, drier year.
- The bi-annual update of the city's cost allocation plan resulted in decreased fees associated with miscellaneous service charges and fines, forfeitures and penalties compared to last year.
- One-time additional property taxes received in the prior fiscal year due to the state dissolving the city's redevelopment agency resulted in a drop in property tax revenues for the current fiscal year.
- The decrease in other revenues was the result of a prior year reimbursement on the Marbella lawsuit.

Expenses

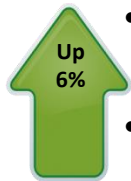
- For Fiscal Year 2013-14, a total of 2.2 full-time positions were reallocated from the Water Enterprise to other programs to better reflect each programs' workload.
- A 3.2 percent increase in the amount of purchased water from the prior fiscal year coupled with an 11 percent rate increase in the variable cost of water purchased from the San Diego County Water Authority (SCCWA) represented the primary drivers in this variance.
- In addition to the increase in the cost of purchased water, the fixed costs from Metropolitan Water District (MWD) and the SDCWA continued to increase significantly.
- An increase in miscellaneous professional services for the desalinization pipeline plan review and a cost of service study for potable water were the primary drivers in higher outside services/maintenance.
- An increase in meter installations for the Automated Meter Reading (AMR) program led to higher miscellaneous expenses this year.

Summary

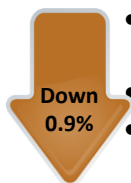
Water revenue came in significantly higher than estimated for the fiscal year due to higher water sales from a very dry year (California is suffering from a significant drought). Operating expenses came in higher for the year due to an increase in water purchases (an increase in both quantity and the cost of purchased water) and the continuation of the AMR program.

Wastewater Enterprise

WASTEWATER OPERATIONS FUND JUNE 30, 2014					
	BUDGET FY 2013-14	YTD (*) 06/30/2013	YTD (*) 06/30/2014	CHANGE FROM YTD 2012-13 TO YTD 2013-14	PERCENT CHANGE
REVENUES:					
CHARGES FOR CURRENT SERVICES	11,553,000	11,770,120	12,333,256	563,136	4.8%
INTEREST	38,000	27,989	35,087	7,098	25.4%
OTHER REVENUES	330,000	292,838	448,780	155,942	53.3%
TOTAL OPERATING REVENUE	11,921,000	12,090,947	12,817,123	726,176	6.0%
EXPENSES:					
STAFFING	2,185,276	1,975,051	1,950,165	(24,886)	-1.3%
INTERDEPARTMENTAL SERVICES	1,145,962	1,081,458	1,111,935	30,477	2.8%
ENCINA PLANT SERVICES	3,269,968	3,073,969	3,129,223	55,254	1.8%
OUTSIDE SERVICES/MAINTENANCE	743,291	486,127	334,231	(151,896)	-31.2%
DEPRECIATION/REPLACEMENT	3,583,000	4,236,291	4,250,000	13,709	0.3%
CAPITAL OUTLAY	0	30,631	0	(30,631)	-100.0%
MISCELLANEOUS EXPENSES	500,365	495,141	497,554	2,413	0.5%
TOTAL OPERATING EXPENSES	11,427,862	11,378,668	11,273,108	(105,560)	-0.9%
OPERATING INCOME/LOSS	493,138	712,279	1,544,015	831,736	116.8%
(*) Adjusted to reflect timing differences for Encina quarterly invoices and depreciation.					

Revenues

- The increase in charges for current services was primarily the result of an additional 2,139 new residential account fees over the past 12 months, as well as a 2 percent rate increase that went into effect in January 2014.
- Interest revenue was the combination of interest earnings on the cash balance in the fund as well as earnings on the debt service reserve. While cash balances in the fund increased from last year, an 8.7 percent decrease in the yield on the Treasurer's portfolio for the year tempered this year's earnings.
- The receipt of reimbursements from the City of Vista and the Encina Wastewater Authority in the current fiscal year, increases in engineering overhead charged to capital projects, and an increase in late charges accounted for the variance to date in other revenues.

Expenses

- For Fiscal Year 2013-14, a total of 0.65 full-time positions were reallocated from the Wastewater Enterprise to other programs to better reflect each programs' workload.
- Increased interdepartmental charges was the result of an updated cost allocation plan.
- Encina plant services to date were a combination of actual billings for three quarters and an estimate of the fourth quarter Encina invoice.
- Large expenses associated with root removal and drainage cleaning in the prior fiscal year accounted for the variance in outside services/maintenance.
- Prior year capital outlay purchases, such as a rack mounted computer system for the CCTV van and a truck mounted hydraulic crane, accounted for the variance in capital outlay.

Summary

Wastewater revenues came in slightly higher than budget for the year due to new customers and a small rate increase. Operating expenses came in slightly under budget due to a reduction in staffing at the Enterprise, a reduction in outside services and maintenance, and a reduction in capital outlay. Depreciation expense varied from the budget due to one-time adjustments made to match Encina's June 30, 2013 audited financial statements.